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C. W. Moorman
Chairman, President and
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July 17, 2006

Chairman Douglas Buttrey
Surface Transportation Board
1925 K Street
Washington, D.C. 20423-0001

Dear Chairman Buttrey:

This correspondence responds to your letter of June 28, 2006 concerning "Railroad Service Demands." Our expectations with respect to the Fall Peak are similar to those described in the letter Mr. David R. Goode sent you last year. We expect to handle the volumes we foresee in 2006 safely and efficiently.

I. Traffic Expectations for the 2006 Fall Peak

In general, NS expects continued strong traffic volumes, broken down as follows by commodity groups.

We expect Intermodal volumes to be strong overall during the Fall Peak, exceeding those during last year's Fall Peak. The majority of this growth will come from international and truckload traffic. Because we expected this increase in intermodal traffic, the industry fleet of platform cars has increased over last year, with most of the increase being double-stack cars. In the last year, NS added intermodal terminal capacity for such traffic at Kansas City, MO; Louisville, KY; Charlotte, NC; and Austell, GA.

From an automotive perspective, production at North American assembly plants is projected to be down during the second half of 2006 when compared to 2005. In large part this results from the closing of two Ford plants that NS serves, and accordingly, NS carloads are projected to decrease somewhat year-over-year.

Although we rarely see a spike in coal volumes during the Fall Peak, coal volumes should remain high during the remainder of 2006. In the third quarter of 2005, NS set a record for the volume of coal, coke, and iron ore transported, demonstrating that the NS network is capable of efficiently handling progressively higher volumes of coal during the Fall Peak. Thus far this year, volumes are even higher than last year. For the first six months of 2006, coal, coke, and iron ore volumes are up 3.3% on NS. In fact, the volume in the second quarter of 2006 was just short of the quarterly record and was the second highest quarterly total for coal, coke, and iron ore in NS history.

At NS, Industrial Products includes everything other than Coal and Intermodal & Automotive. The major commodity groups are (i) Agriculture, Fertilizer and Consumer, (ii) Chemicals, (iii) Metals and Construction Materials, and (iv) Paper, Clay and Forest. We anticipate demand in our Industrial Products business to be roughly comparable to traffic levels during last year's Fall Peak. We are seeing growth in our metals (iron and steel, in particular) business and a modest decline in chemical shipments. Although last year was one of the largest grain harvests on record, we expect a comparable level of grain transportation this year.

II. Operational Planning

The TOP (Thoroughbred Operating Plan) Steering Committee, a group of senior managers from NS's Operations, Marketing, Information Technology, Strategic Planning and Finance, has oversight of and responsibility for NS's Operating Plan. As a matter of routine we make periodic changes to the plan due to changes in business volume and shifts in traffic mix. Heavier volume patterns are typical in the fall, and as a result we tend to make somewhat more changes to the plan for the Fall Peak than for other times of year.

As it has for the last few years, NS continues to expand and improve our locomotive fleet in preparation for expected volume growth. We will have 150 new, high-adhesion six-axle locomotives in service this fall over and above what was available last year. Also, to supplement our current fleet for fall, we will retain leases on an additional 85 road units through the period.

We continually review and update our crew needs on a monthly basis, using computer-modeling techniques. By the end of 2006, over 7,100 employees will have entered Conductor training since 2003 and over 1,900 will have entered Locomotive Engineer training during the same period. This includes 1,800 employees who have or will begin Conductor training this year and 770 who have or will begin Locomotive Engineer training this year.

With demand continuing at high levels, car shortages are and will continue to be an issue in some commodity areas. To help address high demand for rail equipment, NS has taken a number of steps to increase the number of railcars available to our customers. We have further enhanced our car repair efforts – our current schedule of 19,375 scheduled repairs represents a 26 percent increase over our 2005 repair program and a 59 percent increase over our 2004 repair program. We have renewed expiring equipment leases covering 1,386 cars, and we plan to renew leases for 525 cars that expire later in 2006. In 2006, we have acquired through new leases 150 50-foot boxcars and 200 gondolas. Later in the year, we plan to lease 300 covered hoppers, 150 jumbo gondolas, and 20 mill gondolas. Since 2004, we have added new leases covering 1,265 rail cars. We also continue to improve distribution processes by converting customer location pools into free-running pools where feasible, thus reducing empty repositioning time and miles. NS has also increased its car-prepping facilities from 23 at the end of 2004 to 29 at the end of 2005 to 32 so far in 2006. These facilities are at strategic locations to address car quality issues prior to car placement. This effort has reduced the number of rejected cars and unproductive car days to reposition cars for cleaning and prepping.

At NS, we will judge our performance by a number of factors. We will look first at the safety of our operations. We will look at the metrics we make available to the public such as cars on line, terminal dwell and train velocity. In addition, we will constantly review the on-time performance of our customer service and listen to what our customers have to say about our service. And of course we will balance the costs we incur with the revenues earned.

III. Infrastructure and Capital Expenditures

NS makes large capital expenditures to maintain and expand its infrastructure. Through the end of this year, NS capital expenditures will total more than $6.1 billion since 2000. Approximately 40 percent of this investment has been spent just to maintain our existing rail infrastructure

We look towards the future and try to determine where we most will need extra investment to increase our capacity. Infrastructure improvements are evaluated in light of (i) the extent to which such improvements will increase safe and efficient rail operations, (ii) projected traffic levels, and (iii) the value of other competing requests for capital dollars. The following are some of our recent developments.

- In 2005, we added infrastructure in the following corridors: Butler, IN, to Decatur, IL; Chattanooga, TN, to Atlanta, GA; Memphis, TN, to Chattanooga, TN; Atlanta, GA, to Jacksonville, FL; and Macon, GA, to Columbus, GA.

- In 2006, we are adding infrastructure in the following corridors: Memphis, TN to Chattanooga, TN; Chattanooga, TN, to Atlanta, GA; Columbia, SC, to Charleston, SC; Columbus, OH, to Cincinnati, OH; Manassas, VA, to Harrisburg, PA; Atlanta, GA, to Jacksonville, FL; Goldsboro, NC, to Morehead City, NC; and on the Penn Route in New Jersey.

- In 2006, we entered into a joint venture with Kansas City Southern to respond creatively to the capacity needs of the Meridian Speedway to handle the growing volume of intermodal traffic. Although this venture has only been in existence less than one year, work has begun, including installation of Centralized Traffic Control on a portion of the line and design work on key infrastructure improvements.

- In addition to continued investment in many of the previously mentioned routes, we are planning future investment in several additional corridors, including Fort Wayne, IN, to Cincinnati, OH; Atlanta, GA, to Jacksonville, FL; St. Louis, MO, to Danville, KY; Birmingham, AL, to Atlanta, GA; Birmingham, AL, to Meridian, MS; and Birmingham, AL to Macon, GA.

Finally, capacity can also be expanded by means other than capital dollars. For example, we expect our Thoroughbred Operating Plan will continue to allow us to handle more freight using the same amount of resources. In addition, although expenditures made to hire, train, and pay crews are not capital dollars, the additional crews certainly expand our capacity.

IV. Communications

In addition to the effective means of customer communication we have used in recent years, this year we intend to use two new methods of communication. Our primary means of communication continue to be through email advisories, phone conversations and in person, including at sessions sponsored by the railroads or shippers. Because we expect our service levels to be sustained during this Fall Peak, we believe the frequency of these communications will not increase significantly. However, this year, we intend to post a copy of this letter on the NS website. We also will participate in the new, breakout sessions at the AAR-sponsored North American Railroad Customer Forum, during which shippers can meet separately with senior NS officials.

V. Changes in the Regulatory Scheme Could Disrupt Our Ability to Meet Service Demands in the Future

Because we have believed for several years that demand for our transportation would remain high, NS has planned and continues to plan for growth. We increased capacity by purchasing locomotives, hiring more crews and improving both our physical infrastructure and the way we utilize that infrastructure. Our customers will benefit from these investments this year and for years to come.

Even so, more investment will be needed for the future. If the Department of Transportation's or the Association of State Highway and Transportation Officials' predictions of increased demand for freight transportation are close to correct, substantial additional capacity will be needed for the coming years. NS is doing its part to face that challenge. For 2006, our capital budget is about $1.2 billion.

Obviously, the investments we make in track, locomotives, crews, signal systems, and the other tools of railroading are the keys to meeting our customers' transportation needs safely and efficiently. They also cost money – a lot of money. As you know, railroading is the most capital-intensive industry in the United States, and it is essential that railroads continue to earn adequate returns to justify making further investment in capacity. I know you hear complaints about the rates we charge. I hear similar complaints from some of our customers who feel their rates are too high. But at the same time, many of these same customers are asking us for additional capacity and improved service. My response is that capacity, service, and rates are three legs of the same stool.

The rates and charges we assess for our transportation services must be commensurate with our nation's desire to develop a sound transportation system. Without maintaining the market-based approach to pricing our services:

- NS would not have been able to transport the unprecedented growth in freight traffic since 2002;
- NS could not have made the investments required to transport safely and efficiently a record volume of rail traffic in each of the last three years and to be on pace to set another annual record this year;
- NS could not invest so substantially in capacity to support future traffic growth;
- NS would likely not have responded and rebounded from Hurricane Katrina so quickly; and
- NS could not develop the limited amount of redundancy in its network that gives it the ability to respond to the challenges of railroading, like weather, accidents, and special movements to meet customer emergencies.

In short, there is no free lunch. Without market-based adjustments to our rate structures, we cannot invest and expand to meet the ever-growing transportation demands of our many customers.

NS's ability to meet our customer's transportation needs in the future could also be affected by other governmental action. This letter assumes no significant changes in the legislative or regulatory landscape. However, changes on these fronts could jeopardize our ability to meet those needs in the future. Two in particular merit special mention.

First, governmental action regarding the transportation of highly hazardous materials could adversely affect our railroad. NS does not make these highly hazardous materials. NS does not use these highly hazardous materials. And NS does not make enough money transporting these highly hazardous materials to justify the risks the Federal Government requires us to take. Congress must remedy the inequity in the law that forces us to assume risks that we would not assume on our own without adequate protection against those risks. Inaction is not an option.

However, as long as railroads have to transport these materials, we must have the freedom to continue to transport them safely and efficiently and with the least disruption to our network. I understand the concerns that federal, state, and local governments have with the transportation of hazardous materials. But all parties need to recognize that efforts to ban or restrict the routing of hazardous materials would affect adversely and significantly the rail network. As you well know, our network serves a wide variety of customers and thus the adverse effects will be felt in the service we provide not only to those who ship or receive hazardous materials, but those who ship or receive coal, grain, automobiles, intermodal trailers and containers, steel, paper and the hundreds of other products that move by rail.

Second, efforts to re-regulate the railroad industry would have disastrous consequences on our ability to meet our customers' transportation needs. The Board's Hearing on the 25th Anniversary of the Staggers Act highlighted how successful deregulation has been at making railroads financially healthier, improving the level of repair of the nation's rail infrastructure, and preserving affordable transportation rates for customers. The last thing the country needs in the face of current freight transportation predictions is to reverse course.

As you well know, strong, healthy railroads are essential. Public policy must not impede the railroads ability to gamer the resources necessary to meet the demands for freight transportation in the future, not just during the Fall Peak of 2006.

Sincerely,

C.W. Moorman

Charles W. Moorman